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MANAGEMENT AND TRUST FUND REVIEW

FY 2012

"To provide quality, customer-driven workforce services that promote financial stability and economic growth." –DEW Mission Statement

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ADMINISTRATION AND MANAGEMENT

Administration and Management

AGENCY MISSION

The South Carolina Department of Employment and Workforce (DEW) is responsible for securing gainful employment for paying unemployment insurance (UI) benefits, collecting unemployment taxes, helping people find jobs, matching businesses with qualified candidates, and collecting and disseminating state/federal employment statistics. DEW's main goal is to match jobseekers with businesses quickly, efficiently, and effectively, and the Agency offers a variety of services to assist both groups.

The Agency is also the state administrative entity for the federal Workforce Investment Act (WIA) programs. In this role, the Agency works with the State Workforce Investment Board (SWIB), as well as the 12 Local Workforce Investment Boards (LWIBs) and staff in carrying out services and training to meet the needs of both job seekers and businesses.

The Agency works with the federal government to preserve national economic stability. Funds for unemployment benefits come from payroll taxes paid by businesses to both the state and federal government. The Agency is also an active partner with business and industry, working with businesses to keep tax rates low and returning unemployed individuals to the workforce as quickly as possible.

MAJOR ACHIEVEMENTS FY2011-2012

1. Successfully recalculated state UI tax rates in response to General Fund appropriations which provided approximately 12% tax relief to thousands of the state's businesses.
2. Completed installation of a new software system, the Benefit Audit, Reporting, and Tracking System (BARTS) that will help to detect and automate adjudication of unemployment benefit overpayments which will help to preserve the integrity of the system and replenish the state UI trust fund.
3. In partnership with the SC Attorney General's Office, successfully prosecuted several individuals who had received unemployment benefits fraudulently and received indictments against many others.
4. Initiated a monthly Business Roundtables to allow the state's businesses to provide feedback on the Agency's performance and initiatives. Integrated services to businesses through enhanced partnerships developed by the Business Service Team. Services include customized job order entry, matching job requirements with job seeker experience, skills and other attributes, helping with special recruitment needs, and assisting businesses analyze hard-to-fill job orders.
5. Successfully applied for and received approval from the U.S. Department of Labor (USDOL) to avoid increased Federal Unemployment Taxes (FUTA) for 2011 and 2012 associated with South Carolina's continued outstanding federal unemployment loans.
6. Continued and expanded a variety of training programs and educational opportunities for Agency staff including "boot camp" sessions for baseline services, a certification program for employees in their respective areas, a new supervisory development program, the state Certified Public Manager

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program, and a School After Work bachelor's degree program. The Business and Employer Services Certification Program, an in-depth professional education program that promotes the delivery of consistent, comprehensive, and high-quality services to business was also implemented; 144 Agency and partner staff have obtained the professional certification.

7. Exceeded all National Jobs for America's Graduates (JAG) program standards for Return to School Rate, Graduation Rate, Employment Placement Rate and Postsecondary Education Placement Rate.
8. Partnered with the SC Department of Social Services (DSS) to deliver activities designed to assist Supplemental Nutrition Assistance Program (SNAP) recipients find jobs. Established a Memorandum of Agreement with DSS that placed 12 Employment and Training Coordinators in 12 SC Works Centers to serve SNAP Able-Bodied Adults Without Dependents in finding employment.
9. The SWIB was reconstituted by the Governor to add majority business representation, along with the addition of two members from the SC House and two members from the Senate.
10. Transferred the USDOL Workforce Information Grant from the SC Department of Commerce to DEW's Labor Market Information (LMI) Department, which included establishing the Workforce Intelligence Unit to provide LMI services and products to businesses, job seekers, researchers and the general public.
11. Enhanced social networking and communication with partners. Developed and implemented the *Palmetto Workforce Connections* blog, DEW and SC Works twitter feeds, the monthly *Insights* publication, and a newsletter specifically for the state's business community. Created marketing plan which included radio announcements and billboard advertisements about the Veterans Services program.
12. Issued \$49,061,093 in tax incentives to businesses through the Work Opportunity Tax Credit (WOTC) program.
13. Recognized nationally by both the U.S. Department of Commerce and the USDOL for Agency expertise and collaborative partnerships regarding layoff aversion strategies.

STRATEGIC GOALS

1. Increase the number of applicants, UI claimants, and veterans entering employment.
2. Increase customer satisfaction of both businesses and job seekers using workforce services and increase the market penetration level of businesses using our services.
3. Repay all outstanding unemployment loans from the federal government by 2015 and restore the UI Trust Fund to a level sufficient to withstand both minor and major economic recessions.
4. Meet or exceed all federal and state performance measures for Bureau of Labor Statistics and USDOL grant deliverables and performance measures for WIA, TAA, Wagner-Peyser, and UI programs.
5. Reduce the number of improper payments to unemployed claimants by continuing the work of the Agency's integrity task force and increase prosecutions and public exposure to reduce UI fraud.
6. Increase local capacity and accountability through LWIB and SC Works certification standards.
7. Increase outreach to veterans about services provided through Veterans Services; increase business awareness about the Veterans Services program.

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8. Increase efforts to facilitate referrals to training, monitor system-wide measures of cross-program referrals, and ensure that performance measures under Wagner-Peyser are aligned with WIA and support other training services.
9. Conduct program performance monitoring to ensure appropriate technical support staff training needs are addressed and provide staff training to increase necessary transferable workforce skills to close the gap on workforce needs and job seeker skills gaps.
10. Increase collaboration across federally-funded employment and training programs to increase the full range of services to participants and maximize collaboration between state and local organizations to put South Carolinians back to work.
11. Continue to make process improvements to eliminate backlogs and improve timeliness and quality of the agency's services.

KEY STRATEGIC CHALLENGES

1. The slow economic recovery continues to have a negative impact on the ability of unemployed individuals to find jobs.
2. Adapting staffing patterns and funding to changing program priorities and declining federal funding which impacts on statewide programs, training opportunities and services.
3. Meeting performance standards with large workloads related to high levels of unemployment and new service requirements.
4. The loss of experienced staff and training new employees to handle the workload; recruiting and retaining qualified data processing staff to implement new programs and maintain legacy systems; and lack of management/leadership skills among some agency supervisory staff.
5. Communicating to businesses and the public the services our Agency offers (such as LMI products and services) and increasing their utilization.

RESULTS

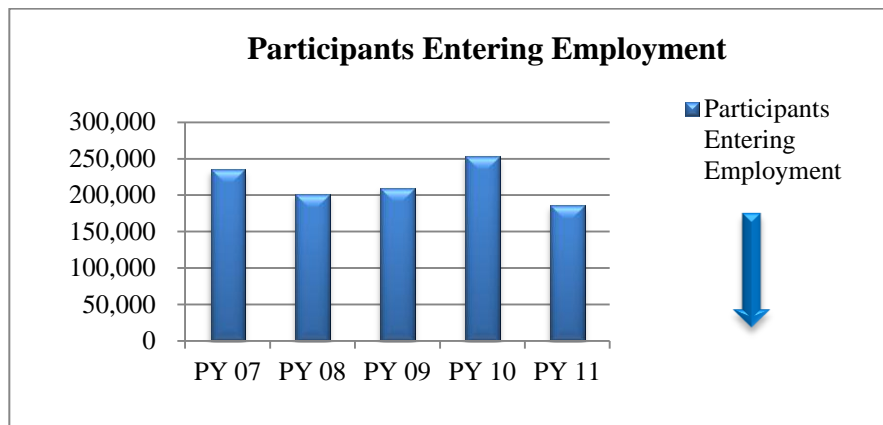
Results

EMPLOYMENT AND TRAINING

Wagner-Peyser/Labor Exchange Services

The primary objective of the Agency's labor exchange program is to assist individuals in obtaining employment. During Program Year (PY) 2011 (July 2011-June 2012) there were 426,815 participants enrolled for this purpose. The slow economic recovery contributed to a lower level of participants entering employment, as shown in Figure 1.

Figure 1: Participants Entering Employment



Two closely monitored groups of customers are those receiving UI benefits (claimants) and veterans. In PY 2011, 92,648 claimants entered employment in the quarter after exiting the labor exchange program (Figure 2). A total of 14,023 veterans also went to work in the quarter following their program exit (Figure 3). These numbers represent 49% of the total exiting claimants and 50% of the exiting veterans.

RESULTS

Figure 2: Claimants Entering Employment

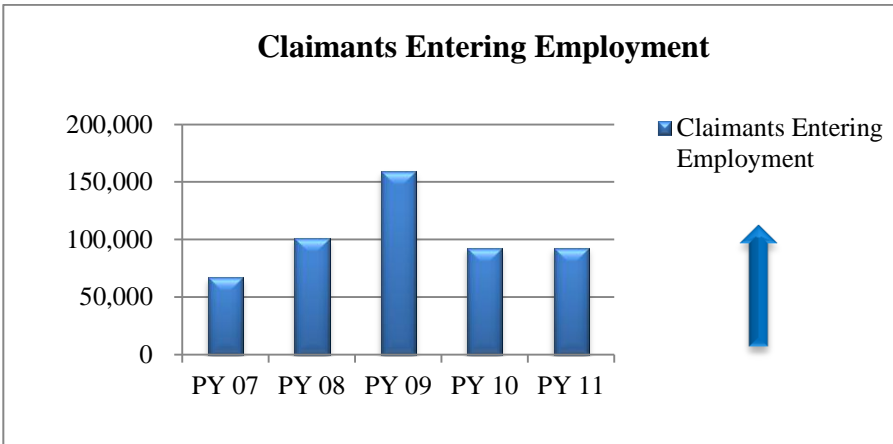
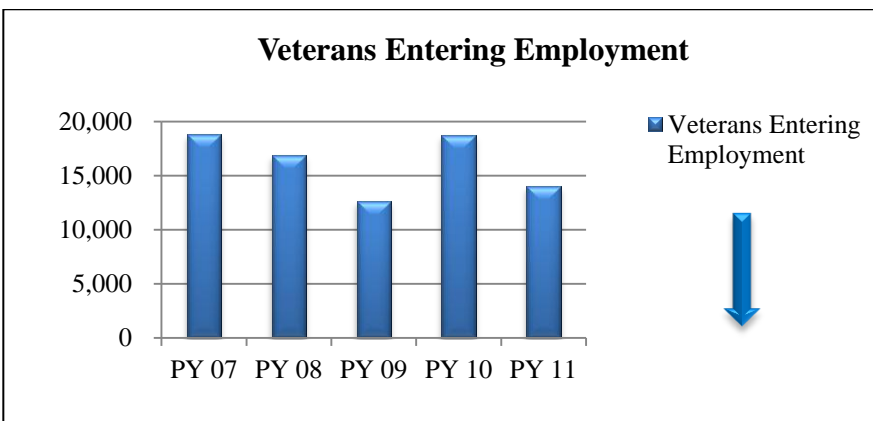


Figure 3: Veterans Entering Employment



Jobs for America's Graduates-South Carolina (JAG-SC)

JAG-SC delivered dropout prevention services and employability skills training to 1,127 students at 25 high schools across the state and one middle school in Hampton County.

- The programs sustained a 95% return to school (retention) rate among all 2010-2011 non-seniors entering the fall 2011 term.
- The class of 2011-2012 served 285 seniors who achieved a 94% graduation rate.
- An additional 106 youth from the class of 2010-2011 received post-secondary follow-up services. Final outcomes included a 64% Civilian Job Placement Rate, a 62% Further Education Rate, a 96% Full-time Placement Rate, and a 91% Total Positive Placement Rate, reflecting participants positively engaged in either school, work, or military service.
- JAG-SC was recognized as:
 - A "5-of-5" Top Performing State for exceeding and documenting all five of the National JAG Performance Goals;

RESULTS

- A top five performer for graduation rate, positive outcome rate, and full-time job rate;
- Maintaining one of the highest Participant Contact Rates of 100%.

Workforce Investment Act (WIA)

Over the past two years, participation in the state's Workforce Investment Act program has steadily declined, largely due to reductions in federal program funding. The number of participants in WIA decreased for all three customer groups in PY 2011 (Table 1).

Table 1: WIA Participation

Customer Group	PY'10	PY'11
Adults	14,669	10,460
Dislocated Workers	10,407	6,278
Youth	4,891	3,902

Although WIA participation has declined, South Carolina exceeded all nine USDOL performance goals in PY'11 as shown in Table 2.

Table 2: WIA Performance Measures

	Customer Group	State Goal	State Actual
Placement in Employment or Education	Youth (14-21)	61.0	64.9
Attainment of Degree or Certificate	Youth (14-21)	55.0	66.4
Literacy or Numeracy Gains	Youth (14-21)	45.0	51.7
Entered Employment Rate	Adults	60.0	65.4
	DW	64.0	72.2
Employment Retention Rate	Adult	82.0	85.4
	DW	87.8	91.4
Six Month Average Earnings	Adult	9,613	10,511
	DW	12,400	14,993
<p>Light Blue Shaded = met* the goal. Dark Blue Shaded = exceeded** the goal</p> <p>*USDOL defines met as performance outcomes between 80% -100% of the negotiated goal.</p> <p>**USDOL defines exceeded as performance outcomes above 100% of the negotiated goal.</p>			

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Rapid Response

When businesses are forced to downsize, Rapid Response services are provided to both company management and the employees affected. Layoff aversion potential is first explored with management to minimize or even prevent the need for layoffs. However, when layoffs are inevitable, the goal of Rapid Response services is to reduce the period between unemployment and suitable reemployment for S.C. workers. An experienced team of state and local workforce staff provide the impacted workers with on-site reemployment services, assistance with resume writing and preparation for interviews, career counseling, available job information, and referral to partnering programs.

- During PY'11, 148 businesses were provided assistance with downsizing, and services were provided to the workers impacted by the loss of 7,491 positions.

The primary goal of Rapid Response - Incumbent Worker Training is to provide whatever assistance we can to retain valued members of our business and industrial communities through a thriving, viable workforce. Secondly, the goal is to continue to grow the skills of the workforce in preparation for future business and industrial needs.

- In PY'11, a total of \$537,941 of Rapid Response funds were committed to S. C. businesses as an integral part of layoff avoidance strategies.
- 10 businesses in six of the state's 12 LWIAs received training grants to update the skill sets of employees while boosting the competitive health of the respective employers.

Work Opportunity Tax Credit (WOTC)

As an incentive for hiring and training workers who are faced with reemployment barriers, businesses can earn a federal tax credit.

- During PY'11, 18,684 WOTC Certifications were issued, adding up to \$49,061,093 in potential tax savings for S.C. businesses.

UNEMPLOYMENT INSURANCE (UI)

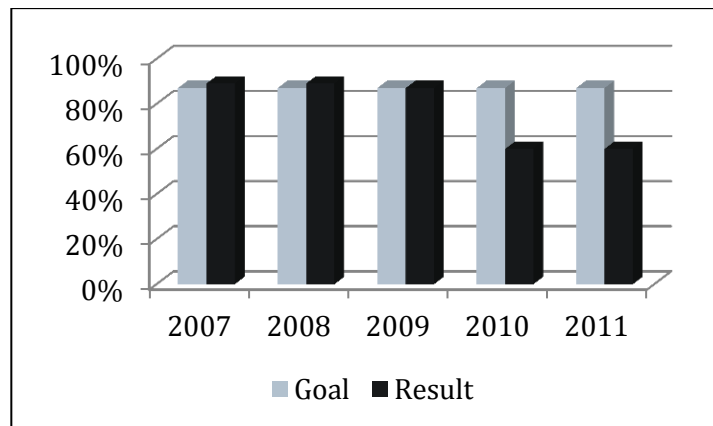
The number of initial claims and total number of weeks claimed in the program has continued to fall since the peak of the recession in 2009-2010 (Figure 4). However, the program continues to face challenges in meeting all performance criteria set by the USDOL for UI-related activities including the timeliness of payment and quality of decisions (Figures 5-7). The Agency has developed corrective action plans for each of the areas that have failed to meet the acceptable standard.

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Figure 4: Claim Workload

Total Initial Claims		
	July 2007 - June 2008	292,661
	July 2008 - June 2009	545,137
	July 2009 - June 2010	386,818
	July 2010 - June 2011	310,528
	July 2011 - June 2012	278,714
Total Weeks Claimed		
	July 2007 - June 2008	1,964,982
	July 2008 - June 2009	4,206,476
	July 2009 - June 2010	4,331,564
	July 2010 - June 2011	2,992,594
	July 2011 - June 2012	2,402,387

Figure 5: First Payment Timeliness: Payment should be made within 14 days of the first claim week-ending date after the waiting week has ended. The criterion for this measure is 87% of first payments being made timely.



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Figure 6: Non-Monetary Determination Timeliness: The eligibility determination should be made within 14 days of detecting an “issue” during a claim series (non-separation) and within 21 days for issues detected when the initial claim is filed (separation). “Issues” are anything that has potential to affect a claimant’s past, present, or future benefits rights. The criterion is 80% of the issues will be handled within the 14 or 21 day time period.

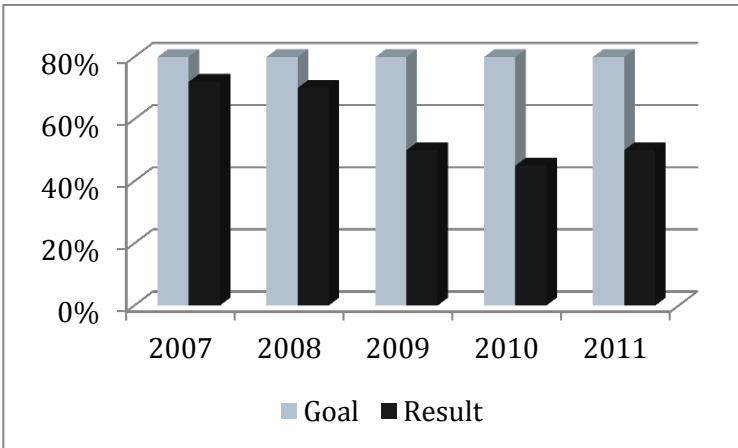
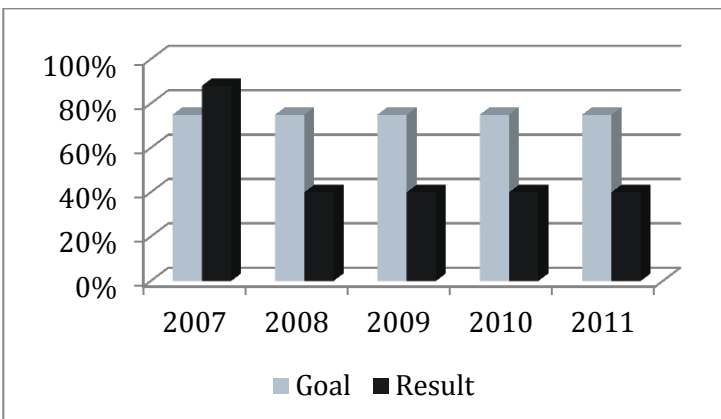


Figure 7: Non-Monetary Determinations Quality: Samples of eligibility determinations are evaluated using federal guidelines to ensure proper decisions are made. The criterion for this is 75% of the evaluated determinations must score at least 80 points.



UNEMPLOYMENT TRUST FUND ASSESSMENT

Unemployment Trust Fund Assessment

CURRENT UNEMPLOYMENT TRUST FUND STAUTS

As of September 30, 2012, the Unemployment Compensation Trust Fund had a positive adjusted balance of \$322,021,251¹ but only after a federal loan of \$675,680,422. The trust fund balance excluding federal advances would be -\$353,659,171. The health of the trust fund has improved dramatically over the past fiscal year. For the first time since FY2008, the state has not had to borrow any funds from the federal government to make benefit payments. Tax revenues have been sufficient to allow the state to begin repaying the outstanding federal loan, and benefit payments to unemployed individuals continue to fall as the economy recovers.

RECENT UNEMPLOYMENT COMPENSATION FUND HISTORY

Historical data of the principal components of the state Unemployment Trust Fund are outlined in Table 3. A graph of the historical contributions, benefits, and fund balance is shown in Figure 1.

Table 3: Unemployment Compensation Fund Components, FY2007-2012

Component	FY2007	FY2008	FY2009	FY2010	FY2011	FY2012
Advances²	0	0	344,881,505	541,780,847	115,174,767	0
Contributions	276,719,421	272,372,131	244,700,285	289,312,460	508,568,694	388,907,575 ³
Interest	12,621,783	10,040,353	2,326,473	-	-	-
Benefits	328,437,814	393,882,441	767,107,651	776,761,390	502,607,650	402,345,502
Adjustments	4,992,302	5,282,067	31,695,096	(8,979,549)	-	16,970,735
Fund Balance	309,030,476	203,042,583	59,538,291	104,890,659	323,207,676	326,883,925
Total Wages	51.3 billion	53.0 billion	50.7 billion	49.3 billion	51.9 billion	54.0 billion

Note: Certain adjustments have been made to correctly carry-forward prior year balance.

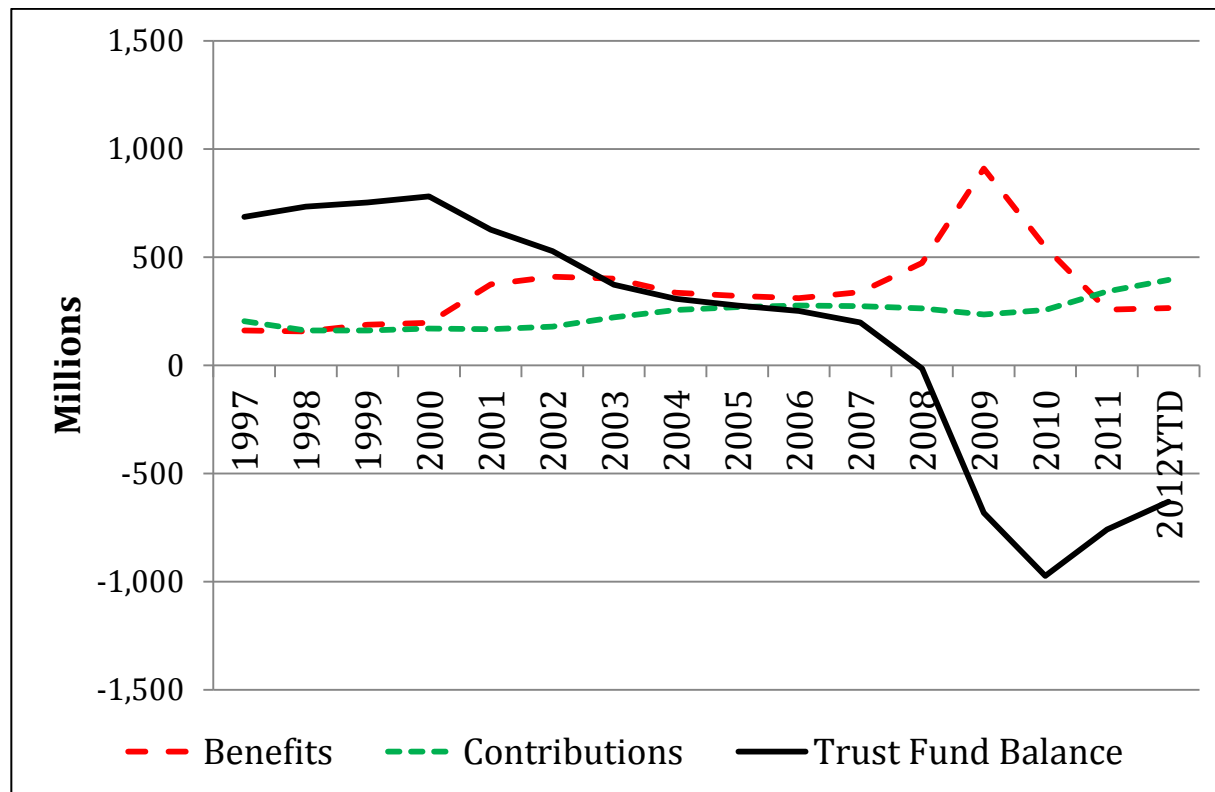
¹ Trust fund balance includes cash deposited in the state's Unemployment Trust Fund, clearing and benefit

² By fiscal year; **not** cumulative

³ FY2012 contributions are lower due to the rate recalculation associated with General Fund appropriations that led to a significant level of credits and refunds issued

UNEMPLOYMENT TRUST FUND ASSESSMENT

Figure 8: Historical Contributions, Benefits, and Fund Balance, CY1997-2012⁴



The components of the Trust Fund are defined as follows:

- Contributions – Contributions received from employers as of June 30.
- Interest – Federal Treasury interest posted to each state’s Trust Fund account quarterly.⁵
- Benefits – State funded benefit payments less benefit overpayment recoveries.
- Adjustments – These are between year adjustments after one year’s calculation and before the next year (i.e., Interstate Benefits, Reed Act Funds, etc).
- Fund Balance – Adjusted Trust Fund balance
- Total Wages – Total covered payroll wages reported by all covered employers for the period beginning July 1 and ending June 30.

⁴ USDOL: Financial Handbook 394 (information from USDOL excludes all federal advances and other fiscal year-ending adjustments); most recent year from ETA 2112 reports as of December 2012.

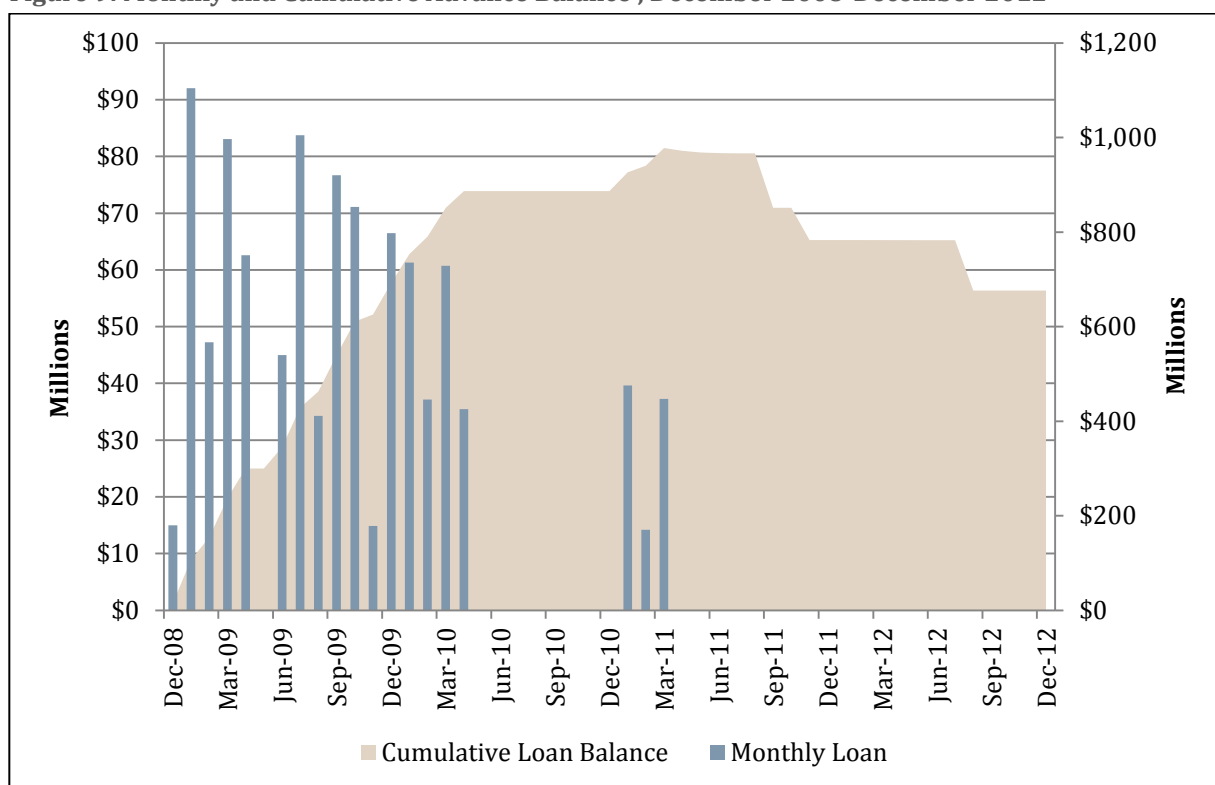
⁵ No interest is due to the state Trust Fund account from the Federal Treasury when federal advances remain outstanding.

UNEMPLOYMENT TRUST FUND ASSESSMENT

OVERVIEW OF ADVANCES

The UI Trust Fund became insolvent in December 2008 and was required to draw significant federal unemployment advances between December 2008 and April 2010. Additional federal advances were required between January and April 2011. Figure 9 shows the borrowing by month since December 2008. An improvement in the economy, higher than anticipated contributions in the last half of FY2010, a one-time infusion of incentive funding from the USDOL, and the new tax structure combined to allow the trust fund to reduce borrowing between April 2010 and April 2011. Since April 2011, no additional funds have been necessary beyond normal tax contributions to fund the declining benefit payments.

Figure 9: Monthly and Cumulative Advance Balance , December 2008-December 2012



FEDERAL UNEMPLOYMENT TAX ACT (FUTA) CREDIT REDUCTION

If any state borrows federal funds to pay unemployment benefits on or after January 1 and repays the borrowed funds by September 30 of the same year, the advance is interest-free and classified as a cash flow loan. If a state borrows federal funds and has an outstanding balance on January 1 for two consecutive years and the borrowed funds are not repaid by November 10 of the second year, employers will lose 0.3% of their FUTA tax credit (typically 5.4% credit on 6.0% tax) each year the advance remains outstanding.

UNEMPLOYMENT TRUST FUND ASSESSMENT

The state can avoid a FUTA credit reduction by meeting three requirements:

1. By November 10, repay all advances taken since the prior November 10 plus an amount equal to the estimated credit reduction,
2. Avoid borrowing until after the next January 31, and
3. Take action after the date of the first advance to increase solvency by an amount greater than or equal to the estimated credit reduction amount.

In CY2010, the state was unable to meet these requirements, and as a result, businesses in the state paid an additional \$21 per worker on their Federal Unemployment Tax returns in January CY2011. Due to the restructuring of the unemployment insurance tax system, changes to benefit laws, and an improving economy, DEW avoided a second credit reduction of 0.6% in CY2011 and has received acceptance of its application to avoid a third credit reduction of 0.9% in CY2012.

To meet these requirements, South Carolina was required to repay, by November 10, 2012, a total of \$102.9 million which is equal to the potential credit reduction and avoid borrowing until after January 31, 2013. South Carolina paid and received provisional approval from the Department of Labor to qualify for the avoidance of the 0.9% reduction for FY2012.

UNEMPLOYMENT TRUST FUND REFORMS

The South Carolina General Assembly passed extensive reforms to the state's unemployment insurance system in the spring of 2010 and made additional changes in both the 2011 and 2012 legislative sessions. Some of these reforms took effect immediately, but the majority of the reforms impacting the trust fund became effective January 1, 2011. Below is an overview of each change that impacts the UI Trust Fund.

Taxable Wage Base

In 2011, the taxable wage base increased to the first \$10,000 of a worker's wages. In 2012 this increased to \$12,000 and will increase to \$14,000 in 2015. These were the first increases in the state's taxable wages since 1983.

Experience Rating System

The tax reforms also changed the method the state uses to experience rate businesses. Previously, South Carolina used the reserve ratio system, but beginning in 2011, the state began using a benefit ratio system. For tax year 2011, the state used seven years of available data to compute business' benefit ratios. This increased to eight years of available data for tax year 2012 and will increase to nine years for tax year 2013. In 2014, state law provides for shortening that to the previous three years of experience.

The benefit ratio system does not consider businesses' tax contributions—only benefits charged over a defined period. Benefit charges are divided by a measure of the firm's taxable wages to determine their benefit ratio.

UNEMPLOYMENT TRUST FUND ASSESSMENT

This benefit ratio is then used to determine a business's tax rate. Businesses with the highest benefit ratios pay higher tax rates while businesses with the lowest benefit ratios pay the lowest tax rates.

Tax Rates

The new tax system implemented in January 2011 eliminated fixed tax rate schedules, which tend to ignore the revenue needs of the system. The new rates are set each year such that the entire schedule raises the estimated income that is required to pay benefits, make loan repayments, and pay interest on those advances while at the same time setting rates for businesses that more accurately reflect the risk they pose to the trust fund.

Businesses are ranked from lowest to highest benefit ratio and assigned a tax class 1 through 20, based on this benefit ratio. Approximately 5% of taxable wages will be assigned to each class. The businesses with the lowest benefit ratios will be assigned to tax class 1 (which has the lowest tax rate) and businesses with the highest benefit ratios will be assigned to tax class 20 (which has the highest tax rates).

Tax rates will also vary with the taxable wage base. A tax rate of 1% with a taxable wage base of \$7,000 raises approximately the same amount of revenue as a 0.5% tax on a taxable wage base of \$14,000. Thus, as the taxable wage base increases from 2011 to 2015, the assigned tax rates will fall, even if the system is raising the same amount of revenue.

Tax Surcharges

While the UI Trust Fund is in debt status, the laws governing DEW provide for two surcharges—one for loan repayment/trust fund rebuilding and one for interest payments. The revenue needed for loan repayments is added directly to the revenue required to pay benefits to determine the amount of regular contributions each business will owe. This results in a trust fund rebuilding surcharge that follows the same experience rating process as regular contributions. The interest surcharge is also designed to be experience rated, although it has a slightly different structure compared to the regular and trust fund rebuilding contributions. Once the trust fund advances from the federal government are repaid, the interest surcharge will go to zero although the trust fund rebuilding surcharge will remain in place until the trust fund can be brought up to the new solvency standard, an average high cost multiple of one (discussed in more detail below).

Reduction in State Weekly Benefits

In June 2011 the SC General Assembly passed a bill reducing the regular state unemployment benefits from a maximum of 26 weeks to a maximum of 20 weeks. This will reduce the amount of revenue to be collected from businesses to cover benefit costs and thus reduce business taxes in the coming years.

Misconduct

During the 2012 legislative session, the General Assembly also passed new laws related to disqualification from unemployment benefits for individuals who were separated from their jobs due to "misconduct." Misconduct is now defined in state law and requires a 20 week disqualification from benefits. The law change also updated disqualification parameters for individuals who were fired for "cause." Individuals

UNEMPLOYMENT TRUST FUND ASSESSMENT

separated for “cause” can be disqualified from benefits for between five and 19 weeks. These new provisions will also contribute to a decline in benefits paid to individuals in the states and represents a potential savings to the trust fund.

REGIONAL COMPARISONS

Table 4 below compares the ranking of South Carolina’s current trust fund reserves with that of 52 other states and territories relative to commonly used measures. South Carolina is a state with one of the largest loan values relative to the total wages paid in the state. This level of outstanding debt does not equate to a healthy trust fund balance. Currently there are 20 states borrowing from the federal government to maintain benefit payments to unemployed workers.

Table 4: Relative Trust Fund Comparisons⁶

Measure	Ranking	Indicator
Trust fund as % of Total Wages	29	# 1 = healthiest trust fund
Outstanding Loan Balance	10	
Loan per Covered Employee	9	#50 = healthiest trust fund
Loan as % of Total Wages	8	

Table 5 compares states in the southeast region to the national average for Trust Fund solvency. The traditional standard for trust fund solvency is to have reserves sufficient to pay at least 52 weeks of benefits at the current payout rate. If the fund has reserves sufficient to pay one year’s worth of benefits, it is said to have a high cost multiple (HCM) of 1.0. Values less than 1 indicate that the fund is able to pay benefits for less than one year at current payout rates. Values over one typically indicate a healthier trust fund level balance.

Another measure of trust fund solvency is the average high cost multiple (AHCM) which is similar to the HCM except that it uses the highest three year average benefit payout level over the previous 20 years (or three recessions, if longer).

⁶ USDOL: UI Data Summary: Third Quarter CY2012

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Table 5: Total Covered Wages in billions, FY2010-2011⁷

State	Trust Fund as a % of Total Wages	High Cost Multiple (HCM)	Average High Cost Multiple (AHCM)
Alabama	0.18	-	-
Florida	0.01	-	-
Georgia	0.16	-	-
Kentucky	0.30	-	-
Mississippi	1.61	0.66	1.24
North Carolina	0.17	-	-
South Carolina	0.34	-	-
Tennessee	0.63	0.16	0.34
U.S. Average	0.36	-	-

Because many states have an outstanding loan balance with the federal government, they do not have sufficient funds to pay any benefits and thus do not have a high cost multiple. Mississippi, Tennessee, and Alabama are the only states in the southeast to have a positive trust fund balance without federal dollars.

The most recent data released by the federal government shows that South Carolina had the third highest total unemployment rate in the region during 2012Q3 (shown in Table 6 below). South Carolina has the fourth lowest average tax rate and the fourth highest average weekly benefit amount.

Table 6: Regional Comparison of Revenue Sources and Expenditures⁸

State	Taxable Wages (billions)	Average Tax Rate	Taxable Wage Base	Unemployment Rate	Total Average Weekly Benefit	Revenue (millions)
South Carolina	\$16.2	2.88%	\$12,000 ⁹	9.1%	\$244.94	\$408.7
North Carolina	\$55.8	2.29%	\$20,400	9.5%	\$300.44	\$1,211.6
Mississippi	\$12.0	2.22%	\$14,000	9.3%	\$190.79	\$279.2
Georgia	\$31.3	2.62%	\$8,500	9.1%	\$272.63	\$839.8
Florida	\$54.3	3.70%	\$8,000 ¹⁰	9.0%	\$229.79	\$2,274.1
Kentucky	\$13.4	3.53%	\$9,000	8.3%	\$287.63	\$520.7
Alabama	\$13.5	3.40%	\$8,000	8.3%	\$202.70	\$476.7
Tennessee	\$22.1	3.32%	\$9,000	8.2%	\$233.86	\$763.6

Taxable wages have a direct relationship with job growth. Increased levels of covered employment would generate more contributions to the trust fund. In theory, a state's taxable wages have an inverse

⁷ USDOL: UI Data Summary: Third Quarter CY2012

⁸ USDOL: UI Data Summary: Third Quarter CY2012

⁹ Increased to \$12,000 effective January 1, 2012

¹⁰ Legislation increased this in 2012.

UNEMPLOYMENT TRUST FUND ASSESSMENT

relationship with the average tax rate. South Carolina's taxable wage base for the first half of FY2012 was \$10,000; for the second half of FY2012, the taxable wage base increased to \$12,000.

The CY2013 taxable wage base will remain at \$12,000, which is still below the national average. This taxable wage base increase combined with a restructuring of the tax rates should increase revenues generated by the state to pay benefits, repay outstanding loans, and make interest payments.

SOLVENCY STANDARDS

The most widely accepted measure of trust fund solvency is known as the Average High Cost Multiple (AHCM). This measure of whether a state has enough money to cover unemployment claims during an economic downturn was devised in 1995 by the federal Advisory Council on Unemployment Compensation. The AHCM is calculated by taking the trust fund balance as a percent of estimated wages for the most recent 12 months (also known as the reserve ratio) and dividing it by the Average High Cost Rate, which is the average of the three highest calendar year benefit cost rates, in the last 20 years or a period including three recessions, whichever is longer. Benefit cost rates are benefits paid as a percent of total wages in taxable employment. The Department of Labor recommends that a state have an AHCM of 1.0, which means that the state has enough funds to pay one year of benefits at the Average High Cost. This should be sufficient to fund benefits during a moderate recession.

Table 7 shows South Carolina's three highest benefit cost rate years, the state's actual (or projected) reserves as of December 31, and the trust fund balance that would be required to achieve the recommended solvency level of 1.0.

Table 7: Solvency Standards and Projections¹¹

Calendar Year	High Cost Years	Average High Cost Rate	Actual Reserves (in millions \$)	Required Reserves (AHCM=1.0) (in millions\$)
2005	1981, 1982, 1983	1.38	\$276,459	\$656,823
2006	1981, 1982, 1983	1.38	\$251,315	\$698,857
2007	1981, 1982, 1983	1.38	\$199,183	\$732,202
2008	1981, 1982, 1983	1.38	\$-14,246	\$732,799
2009	1991, 1992, 2008	0.91	\$-682,074	\$462,587
2010	1991, 2008, 2009	1.23	\$-816,672	\$607,753
2011	1991, 2009, 2010	1.30	-\$661,087	\$684,265
2012	1991, 2009, 2010	1.30	-\$554,587	\$704,792
2013	<i>1991, 2009, 2010</i>	<i>1.30</i>	<i>-\$353,917</i>	<i>\$725,936</i>
2014	<i>1991, 2009, 2010</i>	<i>1.30</i>	<i>-\$150,227</i>	<i>\$747,714</i>
2015	<i>1991, 2009, 2010</i>	<i>1.30</i>	<i>\$117,743</i>	<i>\$770,146</i>
2016	<i>1991, 2009, 2010</i>	<i>1.30</i>	<i>\$200,000</i>	<i>\$793,250</i>
2017	<i>1991, 2009, 2010</i>	<i>1.30</i>	<i>\$400,000</i>	<i>\$817,048</i>

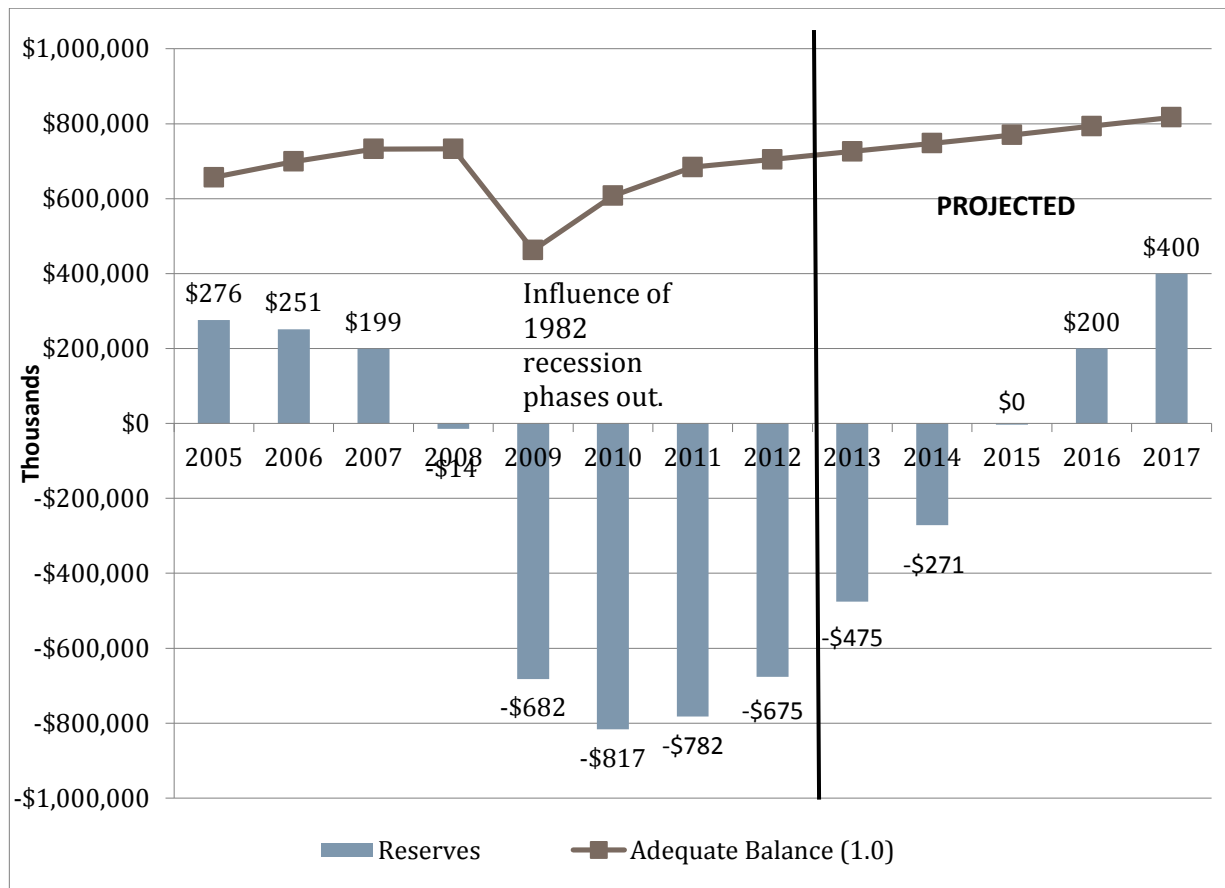
Projections in italics

¹¹ USDOL: Financial Handbook 394

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The same information presented in Table 7 is plotted in Figure 10.

Figure 10: Solvency Standards and Projections¹²



Once the trust fund has regained solvency (projected to be CY2015), trust fund rebuilding will continue until reserves are sufficient to support an AHCM of 1.0, as recommended by the USDOL. The exact timing of how long it will take to rebuild the trust fund to the recommended level will be a consideration for the SC General Assembly in the coming years. Once the state has regained an appropriate level of solvency, there will be an opportunity for lower unemployment taxes on businesses.

¹² USDOL: Financial Handbook 394

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AGENCY INITIATIVES TO PROTECT THE TRUST FUND

Gross Misconduct and Compliance

Part of the legislative reforms adopted by the South Carolina General Assembly in March 2010 and spring 2012 required the agency to enforce harsher disqualification periods for claimants who had been fired for cause and gross misconduct and to completely disqualify individuals fired for misconduct. The results of these compliance measures have lowered the benefit payout levels. In April 2010 the minimum disqualification for being fired for cause was a 10 week disqualification. This minimum increased to 12 weeks in 2011, and beginning in April 2012, the minimum disqualification was increased to 16 weeks.

Table 8: Increased Disqualification for Misconduct, April 1-December 31¹³

Reason for Separation*	2011 Average Weeks of Disqualification	2012 Average Weeks of Disqualification	Change
Resign rather than Fire	11.7	18.3	+6.6 weeks
Unauthorized Use of Property	13.3	19.5	+6.2 weeks
Failure to be Courteous	11.7	17.6	+5.9 weeks
Failure to Work Required Overtime	10.4	16.3	+5.9 weeks
Unsatisfactory Performance	10.9	16.5	+5.6 weeks
Attendance Issues	10.6	16.0	+5.4 weeks
Tardiness	10.8	16.0	+5.2 weeks
Horseplay, Improper Behavior, Arguing	14.0	18.9	+4.9 weeks
Average	11.4	18.1	+6.7 weeks

*Shows only a selection of reasons; average includes 20 week disqualifications associated with "misconduct."

Focus on Reemployment

A primary function of DEW is reemployment service for both UI claimants and other job seekers.

When individuals are reemployed faster, fewer benefits are paid out, and contributions to the system are larger. The agency is committed to working with businesses and jobseekers to improve our ability to match our two customers together.

Beginning in August 2012 unemployment benefit claimants must do at least one of their required job searches online through the SC Works system. This will help to verify that individuals collecting benefits are active in their search for work. Anyone who does not complete the mandatory one search per week will be denied benefits for that week. This should lead to a faster return to employment for UI claimants as well as reduce benefit charges to the trust fund.

¹³ Internal Reports Report RE11

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The agency has also been actively pursuing a stronger partnership with the business community. Business roundtables are hosted monthly throughout the state to allow businesses to share their feedback on processes, programs, and initiatives that are working or could be improved. This also gives the agency an opportunity to share news of upcoming events and agency changes.

Integrity Efforts

The newly formed Integrity Department is responsible for all compliance and enforcement activity for the agency. Integrity activities are designed to prevent, detect, reduce, and recover improper payments in the UI Program. The Integrity Department consists of a Benefit Payment Control Unit, a Collections Unit, and a Tax Field Service Unit. The agency's integrity action plan has placed renewed focus on the prevention and recovery of detected benefit overpayments and tax debits through new staffing models and technology tools.

The agency was able to automate some adjudication of overpayments with the implementation of BARTS. The Treasury Offset Program (TOPs) has been developed and is being implemented to intercept federal tax refunds from individuals who owe the agency money which will help increase collections. Working with the Attorney General's Office, South Carolina has prosecuted and publicized convictions to deter fraudulent overpayments. The State New Hire Database (SNHD) and National Directory of New Hire (NDNH) have been utilized for cross matching detection to ensure that individuals who have returned to work are not continuing to draw unemployment benefits. The agency is working to cross match with the Department of Corrections, State Retirement System, Workers Compensation, and Social Security Disability databases for improved fraud detection. A special project team has been established to work "cold case" benefits overpayments and tax debit collections. The agency is also in the process of development and deployment of the UI workforce certification program as part of a strategic plan for staff development to ensure the importance of maintaining program integrity.

AGENCY RECOMMENDATIONS

Tax Structure

The agency has undergone a tremendous amount of change in the past three years. We currently recommend allowing the tax structure changes to remain largely in place and reevaluate the status of the trust fund over the next few years. The new tax laws are designed to return the trust fund to solvency by CY2015. There are two recommendations that the agency will be proposing in the 2013 legislative session.

Currently the "look back" period for calculating a business' experience with the unemployment insurance system is set to look at only the previous three years of data beginning in CY2014. The current law in effect allows up to ten years of experience to be considered when setting tax rates. Moving to three years will have a potentially detrimental impact on smaller businesses that have even minor fluctuations in employment levels. Using more than three years of data allows a smoothing of experience over time and minimizes the impact of a single layoff in one year. Only businesses with no benefit charges during the

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“look back” period are currently in tax class 1, which has a base tax rate of 0%. While it is extremely difficult to have no benefit charges over a ten year period, there is a greater probability of having no benefit charges in a three year period. This may result in a larger percentage of businesses being assigned to tax class 1. With a 0% contribution rate, this will increase the tax burden on businesses in tax classes 2 through 20. The agency recommends leaving the look back period at ten years.

The second recommendation would be to assign new businesses that have no experience with the unemployment system to tax class 10. Current law assigns these businesses to tax class 12. The tax rate and costs associated with tax class 10 are more closely aligned with the new business tax costs in surrounding states. A lower tax rate for new businesses may be a good marketing factor for the state as it seeks to attract new investment in the state.

CONCLUSION

While we continue to address the current outstanding federal loans, we are encouraged by the major tax and benefit changes passed by the General Assembly between 2010 and 2012. The new tax changes are working; the revenue brought into the system now more closely matches the expected income needed by the system to fund benefit, loan, and interest payments. Also, having the ability to assign tax rates to businesses that more accurately reflect the risk they pose to the UI system is a significant advancement toward the agency’s goal of restoring the solvency of the trust fund while providing appropriate incentives to those businesses who maintain stable employment.

With the trust fund clearly on the path to solvency, the agency’s focus can now turn to restoring the integrity of the unemployment insurance program. In the coming months, DEW will utilize a myriad of initiatives geared towards increasing the program’s integrity. These include: developing and deploying new training for agency staff; developing a digital fact-finding application to enhance consistency and integrity of fact-finding throughout the state; integrating data from the NDNH and the SNHD into internal agency data to detect and deter overpayments; and developing and deploying a new marketing campaign aimed at improving both business and claimant awareness of and responsibility in the unemployment compensation program. The ultimate goal of these initiatives is to promote the idea that “everyone owns integrity” and we all have a part to play in minimizing improper payments and keeping tax burdens low.

The combined efforts of our new tax system and our focus on detecting fraudulent and non-fraudulent overpayments will help to lower benefit costs to the system and thus restore the trust fund to solvency more quickly. Overall, we feel the trust fund is well on its way to recovery.